

CITY ACADEMY
FINANCIAL STATEMENTS
AND REPORT IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

Years Ended June 30, 2005 and 2004

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
City Academy

We have audited the accompanying statements of financial position of City Academy (a nonprofit organization) as of June 30, 2005 and 2004 and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of City Academy's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of City Academy as of June 30, 2005 and 2004 and the results of its activities and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 6, 2005 on our consideration of City Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

Squire & Company, PC

July 6, 2005

CITY ACADEMY
STATEMENTS OF FINANCIAL POSITION
June 30, 2005 and 2004

	2005	2004
ASSETS		
Current Assets:		
Cash	\$ 206,545	\$ 108,562
Accounts receivable:		
Federal	14,070	16,087
State	2,388	878
Local	-	5,105
Other assets	6,269	190
Total current assets	229,272	130,822
Capital Assets , net of accumulated depreciation of \$39,232 and \$24,049 at June 30, 2005 and 2004, respectively	61,130	60,449
Total assets	<u>\$ 290,402</u>	<u>\$ 191,271</u>
LIABILITIES AND NET ASSETS / DEFICIENCY IN NET ASSETS		
Current Liabilities:		
Accounts payable:		
Trade	\$ 1,416	\$ 6,003
Related parties	141,993	165,266
Payroll and related benefits payable	115,686	95,282
Deferred revenue	525	2,461
Total liabilities	259,620	269,012
Net Assets:		
Unrestricted net assets (deficiency)	4,637	(113,335)
Net assets temporarily restricted for:		
Community learning center	5,270	7,000
Grant writing	2,500	2,500
Specific educational programs	18,375	24,813
Supplies	-	1,281
Total net assets (deficiency)	30,782	(77,741)
Total liabilities and net assets (deficiency)	<u>\$ 290,402</u>	<u>\$ 191,271</u>

The accompanying notes are an integral part of these financial statements.

CITY ACADEMY
STATEMENTS OF ACTIVITIES
Years Ended June 30, 2005 and 2004

	2005	2004
Unrestricted Net Assets		
Revenues and Support:		
Federal	\$ 289,493	\$ 167,387
State	961,890	779,439
Local school district	-	297
Contributions	42,412	98,792
Interest	966	42
School fees and other revenue	29,802	36,269
Change in fair value of investments	-	(81)
Net assets released from restrictions	20,426	31,855
Total revenues and support	1,344,989	1,114,000
Expenses:		
Program Services:		
School:		
Salaries	589,673	533,236
Employee benefits	101,323	113,062
Professional and technical	11,558	46,429
Supplies and materials	32,730	25,359
Utilities and custodial	1,145	3,104
Equipment	17,358	13,317
Building	174,251	178,992
Liability insurance	7,083	6,652
Dissemination grant	142,394	70,515
Total program services	1,077,515	990,666
Supporting Services:		
Management and general	145,260	66,631
Fundraising	4,242	2,487
Total supporting services	149,502	69,118
Total expenses	1,227,017	1,059,784
Change in unrestricted net assets	117,972	54,216
Temporarily Restricted Net Assets:		
Contributions	10,977	60,449
Net assets released from restrictions	(20,426)	(31,855)
Change in temporarily restricted net assets	(9,449)	28,594
Change in Net Assets	108,523	82,810
Net Assets (Deficiency) at Beginning of Year	(77,741)	(160,551)
Net Assets (Deficiency) at End of Year	\$ 30,782	\$ (77,741)

The accompanying notes are an integral part of these financial statements.

CITY ACADEMY
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2005 and 2004

	2005	2004
Cash Flows from Operating Activities:		
Change in net assets	\$ 108,523	\$ 82,810
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	16,195	10,992
Change in fair value of investments	-	81
Noncash contributions	-	(7,844)
Donated capital assets	(4,675)	(22,128)
Loss on disposal of capital assets	3,988	-
(Increase) decrease in operating assets:		
Accounts receivable	5,612	(4,301)
Other assets	(6,079)	2,600
Increase (decrease) in operating liabilities:		
Accounts payable	(27,860)	6,501
Payroll and related benefits payable	20,404	5,420
Deferred revenue	(1,936)	2,461
Total adjustments	5,649	(6,218)
Net cash provided by operating activities	114,172	76,592
Cash Flows from Investing Activities:		
Purchase of capital assets	(16,189)	(6,560)
Proceeds from sale of investments	-	7,871
Net cash provided (used) by investing activities	(16,189)	1,311
Net Change in Cash	97,983	77,903
Cash at Beginning of Year	108,562	30,659
Cash at End of Year	\$ 206,545	\$ 108,562

Supplemental Information:

During the years ended June 30, 2005 and 2004, the School paid \$66 of interest in each year and paid no income taxes.

The accompanying notes are an integral part of these financial statements.

CITY ACADEMY

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Organization and Activities – City Academy was incorporated on June 11, 1999, and is operated as a nonprofit organization involved in secondary education. City Academy currently operates one charter school in Salt Lake City, Utah, from seventh through twelfth grade. City Academy also assists to other charter schools throughout Utah, funded by a dissemination grant, to help them create and sustain high quality, accountable schools. These financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Income Taxes – City Academy is exempt from federal income tax under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3) and has received a determination letter in this regard. City Academy is considered a public charity.

Capital Assets – City Academy's capital assets consist of purchased and donated equipment. Donations of equipment are recorded as contributions at their estimated fair value at the date of donation. Equipment valued at \$1,000 or more with a useful life greater than one year is capitalized and depreciated, using straight-line depreciation, over three to ten years.

Donated Services – No amounts have been reflected in the financial statements for donated services. However, many individuals volunteer their time and perform a variety of tasks that assist City Academy with specific programs, administration, and Board assignments.

Investments – Donations of investments are recorded as contributions at their estimated fair value at the date of donation. Investments are reported at fair value at year-end. Unrealized gains and losses are included in the change in net assets in the accompanying statements of activities.

Financial Statement Presentation – City Academy reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Contributions received are recorded as increases in unrestricted, temporarily restricted, or permanently restricted net assets, depending on the existence and/or nature of any donor restrictions.

Revenue Recognition – The principal source of operating funds for City Academy is federal, state, and local funds. City Academy receives state and local funding based on the number of students enrolled. City Academy also receives federal and state grants on a reimbursement basis and, accordingly, grant revenues are recognized when qualifying expenses have been incurred and all other grant requirements have been met.

CITY ACADEMY
NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Comparative Data – Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

Note 2. Cash

At June 30, 2005, City Academy's book balance of cash accounts totaled \$206,545 and the bank balance was \$218,812, \$100,000 of which was covered by federal depository insurance.

Note 3. Leases

During the year ended June 30, 2005, City Academy extended the lease of its facilities through June 2006. The lease addendum calls for 10 monthly payments of \$18,400 beginning in August 2005. Future minimum lease payments for the year ending June 30, 2006 will be \$184,000. Building lease expense for the years ended June 30, 2005 and 2004 totaled \$175,046 and \$178,992, respectively.

City Academy also leases office equipment on a month-to-month basis. Lease payments for the years ended June 30, 2005 and 2004 totaled \$2,160 and \$3,730, respectively.

Note 4. Related Party Transactions

Prior to July 1, 2003, City Academy leased its facilities from a company owned by a Board member. At June 30, 2005 and 2004, City Academy owed its former landlord \$111,392 and \$131,392, respectively, for unpaid lease amounts.

Board members and other related parties have paid certain expenses for City Academy in prior years. At June 30, 2005 and 2004, City Academy owed these related parties \$30,601 and \$33,874, respectively.



**Independent Auditor's Report on Internal Control
Over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance
With Government Auditing Standards**

Board of Directors
City Academy

We have audited the financial statements of City Academy as of and for the year ended June 30, 2005, and have issued our report thereon dated July 6, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City Academy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, management, and federal and state awarding agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

Squire & Company, PC

July 6, 2005



**Independent Auditor's Report on Legal Compliance
in Accordance with the State of Utah
Legal Compliance Audit Guide**

**Board of Directors
City Academy**

We have audited the financial statements of City Academy (a nonprofit organization) as of and for the year ended June 30, 2005, and have issued our report thereon dated July 6, 2005. As part of our audit, we have audited City Academy's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions applicable to its major state assistance program as required by the *State of Utah Legal Compliance Audit Guide* for the year ended June 30, 2005. City Academy received the following major state assistance program from the State of Utah (passed through the State Office of Education):

Minimum School Program

The management of City Academy is responsible for City Academy's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit disclosed no instances of noncompliance with the requirements referred to above.

In our opinion, City Academy complied, in all material respects, with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to its major state assistance program for the year ended June 30, 2005.

Squire & Company, PC

July 6, 2005